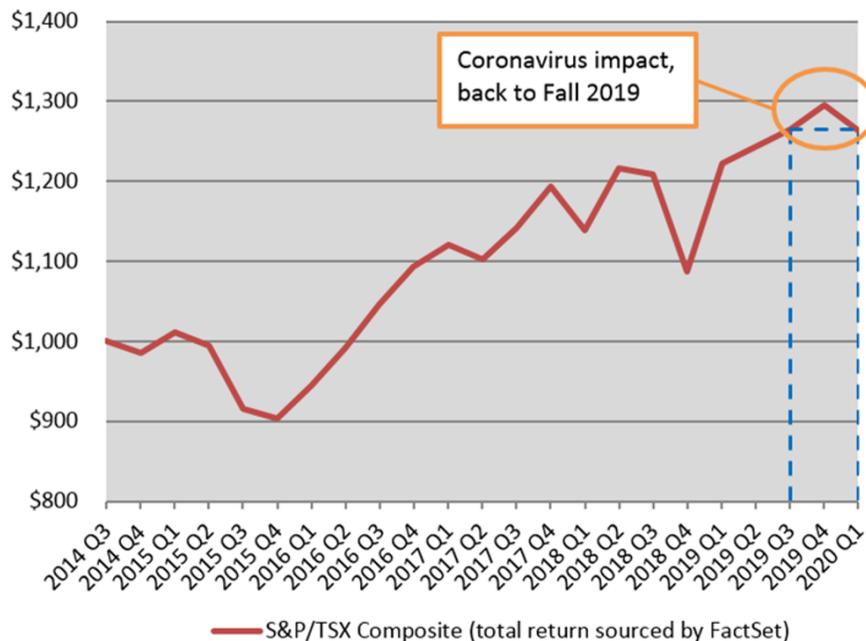


*This update is provided by the Independent Accountants' Investment Counsel Inc.*



## Coronavirus and Market Volatility

Investor reaction to the unfolding Coronavirus (COVID-19) story has caused significant market volatility in recent weeks. Broad equity markets have given back their gains of 2020 and are trading at levels we experienced back in the fall of 2019 (see graph below). The uncertainty over the ability of public health organizations and governments around the world to contain the human and economic impact of the virus will no doubt persist for some time, and no one can currently assess the extent of the damage that will be done.



How do we at IAIC intend to manage our client investments through this period of uncertainty? The same way we have managed through other periods of uncertainty, including the SARS and ebola pandemics, the 2008-2009 financial crisis and political uncertainties (Brexit / Trump, etc.). At IAIC we have long talked about diversification, playing more defense than offense and remaining disciplined in our approach. We will remain focused, stick with quality investments that can ride out economic uncertainties and not deviate from our long-term plan, resisting the temptation to react to daily news updates.

IAIC's client portfolios are built with investments in large, profitable companies with solid track records. That doesn't mean that their values won't fall temporarily during times like these. But we have a historical reference that shows us the companies we select for our clients' portfolios have

weathered many an economic storm and not only survived, but actually thrived and continued on to more prosperity once the storm passed.

Current events demonstrate the value of diversification within our clients' portfolios. Our typical diversified portfolio will have exposure to many investments that generally benefit during periods of volatility. For example, shorter-term bonds, that can appear to be a drag on investment performance in "bull" markets, have thus far held their values very well relative to equity markets, providing a significant degree of safety.

We will not veer from our disciplined, diversified, value-based approach, but that doesn't mean we are not closely following the evolving Coronavirus story. We are carefully monitoring the markets across the globe, along with key data out of China, including infection growth rates, construction activity, road congestion data, daily property sales, domestic passenger traffic and more.

Economists predict the Chinese economy is likely to contract sharply in the first quarter of 2020 as a result of the measures that have been taken to limit the spread of the virus. The apparent slowdown in new infections in the last few days may be cause for optimism that output will bounce back quickly, leaving no lasting economic damage. The leadership in Beijing is now encouraging workers to return and firms to reopen, has offered bridge financing to help firms meet financial obligations and has ordered firms to not lay off workers in response to virus containment measures. Starbucks has re-opened 85% of its stores in China that were previously closed. The Government also appears to be gearing up for additional fiscal stimulus. We anticipate that further monetary easing is also likely. But a slower recovery that would have larger and more prolonged effects cannot be ruled out until activity has started to return to normal. And the extent of the mobility of the virus into other parts of the world and the resulting economic impact is still unknown.

As for the virus itself, public health organizations and governments continue to take steps to understand, contain, treat and prevent the virus. Health officials admit there are still many unknowns, despite intense research and information sharing about the virus by health experts around the globe. To date, there have been almost 3,000 deaths caused by the virus (mainly those vulnerable due to advanced age or pre-existing health conditions), all but 70 within China. Of the more than 80,000 people who have contracted the virus, over 30,000 have by now fully recovered. It is also possible that many others had the virus without being diagnosed and survived.

We will continue to monitor the evolution of the Coronavirus outbreak, the economic ramifications and the impact on equity and bond markets. With our disciplined, diversified, value-based approach to the construction and regular rebalancing of our clients' portfolios, we are always prepared for uncertain times.

If you would like to speak with an IAIC portfolio manager, please email [clientservices@iaic.ca](mailto:clientservices@iaic.ca) or call us at 1-877-291-3040.

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